

Message Text

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ACTION EB-11

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C O N F I D E N T I A L OTTAWA 2746

EO 11652 GDS

TAGS ENRG ETRD CA

SUBJ OIL EXPORT TAX

REFS A. OTTAWA 1659; B. OTTAWA 2472; C. OTTAWA 2662

1. EXTAFF'S J.S. NUTT, DIRECTOR GENERAL, WESTERN HEMISPHERE BUREAU AND P.A. MCDOUGALL, DIRECTOR GENERAL, BUREAU OF ECONOMIC AFFAIRS, CALLED ME IN TODAY TO DELIVER GOC REPLY AS FOLLOWS TO EMBASSY'S NOTE NO. 98 OF JUNE 3.

2. BEGIN VERBATIM TEXT:

THE DEPARTMENT OF EXTERNAL AFFAIRS PRESENTS ITS COMPLIMENTS TO THE EMBASSY OF THE UNITED STATES OF AMERICA AND HAS THE HONOUR TO REFER TO THE EMBASSY'S NOTE NO. 98 DATED JUNE 3, 1974.

THE EXPORT CHARGE ON CANADIAN CRUDE OIL WAS NECESSARY IN ORDER TO OBTAIN A JUST AND REASONABLE PRICE FOR EXPORTED CANADIAN OIL. IT WAS THE ONLY SOLUTION POSSIBLE IN LIGHT OF THE EXTRAORDINARY INTERNATIONAL SITUATION PREVAILING AT THE TIME AND THE DIVISION OF THE CANADIAN OIL MARKET.

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THE EXPORT CHARGE, AND THE EXPORT TAX THAT PRECEDED IT, HAVE HITHERTO CONSISTENTLY BEEN DETERMINED AS THE DIFFERENCE BETWEEN THE CURRENT CANADIAN CRUDE OIL PRICE AND THE "JUST AND REASONABLE PRICE" ESTABLISHED BY THE NATIONAL ENERGY BOARD FOR EXPORTS OF CRUDE OIL AND EQUIVALENT HYDROCARBONS.

IN MAKING ITS FINDING OF THE JUST AND REASONABLE PRICE FOR THE MONTH OF JUNE AND SUBSEQUENT MONTHS, THE BOARD DECIDED TO RECOGNIZE EXPRESSLY THAT THE BULK OF CRUDE OIL MOVING IN WORLD TRADE HAD NOT FIRM PRICE BUT WAS CONTINGENTLY SUBJECT TO RETROACTIVE PRICE ADJUSTMENT. IN ALL OTHER RESPECTS, ITS DETERMINATION EMBODIED PRECISELY SIMILAR CONSIDERATIONS AS PREVIOUSLY. THE BOARD CONCLUDED THAT IN EXISTING CIRCUMSTANCES THE JUST AND REASONABLE PRICE FOR CANADIAN CRUDE OIL AND EQUIVALENT IS ONE WHICH REFLECTS AS REASONABLY AS CAN BE ESTIMATED THE PRICE OF ALTERNATIVE OFFSHORE IMPORTS, INCLUDING ALLOWANCE FOR RETROACTIVE PRICE INCREASES RELATED TO HOST GOVERNMENT ACTIONS. THIS ACTION WAS EXPLAINED TO AND DISCUSSED IN DETAIL WITH UNITED STATES OFFICIALS DURING A VISIT TO WASHINGTON BY CANADIAN OFFICIALS CONCERNED ON MAY 8.

THE REQUEST BY THE CANADIAN GOVERNMENT TO EXPORTERS TO COLLECT AN EXPORT CHARGE OF \$5.20 PER BARREL FROM JUNE 1 ONWARDS WAS MADE "ON THE UNDERSTANDING THAT, SHOULD SUBSEQUENT FACTUAL DATA INDICATE THAT THIS LEVEL OF CHARGE IS TOO HIGH IN RELATION TO THE BOARD'S CURRENT ASSESSMENT OF EVENTUAL WORLD PRICES, MEANS WILL BE SOUGHT TO REIMBURSE EXPORT CUSTOMERS EITHER THROUGH SUBSEQUENT REMISSION OR REDUCTION OF PRICE".

THE CANADIAN GOVERNMENT FINDS IT DIFFICULT IN THESE CIRCUMSTANCES TO ACCEPT ANY CONTENTION THAT THERE HAS BEEN A CHANGE IN THE BASIS OF THE EXPORT CHARGE OR THAT THE HIGHER LEVEL OF CHARGE IN QUESTION IS LIKELY TO ENCOURAGE HIGHER PRICES
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IN WORLD MARKETS.

THERE IS NO DIRECT LINK BETWEEN EARNINGS FROM THE EXPORT CHARGE ON OIL AND PAYMENTS TO REFINERS AND OTHERS FOR OIL IMPORT COMPENSATION. GOVERNMENT RECEIPTS FROM THE EXPORT CHARGE GO INTO THE CONSOLIDATED REVENUE FUND AND PAYMENTS FOR IMPORT COMPENSATION ARE PAID OUT OF THE SAME FUND. THIS

FUND IS USED FOR MANY OTHER GOVERNMENT EXPENDITURES AND IS REPLENISHED FROM NUMEROUS SOURCES. MOREOVER, BECAUSE THE VOLUMES OF EXPORTED OIL MAY NOT BE THE SAME AS THE VOLUMES OF IMPORTED OIL, THE INCOME FROM THE EXPORT CHARGE MAY NOT NECESSARILY BE THE SAME AS THE COMMITMENT FOR IMPORT COMENSATION. IT SHOULD BE NOTED, HOWEVER, THAT THE EXISTING LEVEL OF THE EXPORT CHARGE OF \$5.20 PER BARREL IS COMMENSURATE WITH THE UNIT RATE OF COMPENSATION WHICH THE CANADIAN GOVERNMENT HAS UNDERTAKEN TO PAY TO IMPORTERS OF FOREIGN OIL. CURRENTLY, REFINERS IN EASTERN CANADA CAN EXPECT TO RECEIVE IN EXCESS OF \$3.00 COMPENSATION IN RESPECT OF "HOST GOVERNMENT TAKE" FOR EACH BARREL OF IMPORTED CRUDE. COMPENSATION PAYMENTS IN RESPECT OF "HOST GOVERNMENT PARTICIPATION" ARE NOW ALSO BEING MADE AND AFFECTED IMPORTERS CAN EXPECT TO RECEIVE UP TO ABOUT \$2.00 PER BARREL, IN SOME CASES WITH EFFECT FROM JANUARY 1, 1974. ALTHOUGH THERE ARE STILL UNCERTAINTIES, THE JUDGMENT OF THE CANADIAN GOVERNMENT IS THAT THIS IS A MEASURE OF THE INCREASE IN THE INTERNATIONAL PRICE OF CURDE OIL ATTRIBUTABLE TO THE EFFECTS OF PARTICIPATION AGREEMENTS CURRENTLY BEING NEGOTIATED IN THE OIL PRODUCING COUNTRIES. THE EVIDENCE AVAILABLE TO US FROM REFINERS IN EASTERN CANADA INDICATES THAT, AT LEAST FOR SOME, PAYMENTS OF THIS MAGNITUDE ARE CURRENTLY BEING MADE CONDITIONALLY TO THEIR INTERNATIONAL TRADING AFFILIATES.

THE TOTAL COMPENSATION PER BARREL FOR WHICH THE GOVERNMENT WILL HAVE A RETROACTIVE AND ONGOING COMMITMENT COULD BE IN EXCESS OF \$5.00.

THE PURPOSE OF THE EXPORT CHARGE ON CRUDE OIL
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IS NOT TO PROVIDE A SUBSIDY TO CANADIAN INDUSTRIES. IN THEIR EFFECTS, CANADIAN OIL PRICING POLICIES HAVE NOT BEEN DISSIMILAR TO UNITED STATES GOVERNMENT PROGRAMMES TO CONTROL UNITED STATES DOMESTIC PRICES. THE UNITED STATES AUTHORITIES ARE NO DOUBT AWARE THAT THE COSTS OF PETROLEUM PRODUCTS TO U.S. INDUSTRIES ARE SIMILAR TO THOSE IN CANADA.

THE CANADIAN GOVERNMENT TRUSTS THAT THESE EXPLANATIONS WILL SERVE TO CLEAR UP ANY MISUNDERSTANDING THAT MIGHT EXIST ABOUT CANADIAN OIL POLICY.

THE CANADIAN GOVERNMENT WELCOMES EXCHANGES OF VIEWS WITH THE UNITED STATES AUTHORITIES ON ENERGY AND RELATED QUESTIONS AND SEES THE UNITED STATES

EMBASSY'S NOTE UNDER REFERENCE AND THIS REPLY,
TOGETHER WITH THE RELATED EXCHANGES AMONG OFFICIALS
CONCERNED, AS A CONTRIBUTION TO CLOSE CONSULTATION
BETWEEN THE TWO GOVERNMENTS. THE CANADIAN GOVERNMENT
HOPES THAT THIS DIALOGUE WILL CONTINUE ON ITS
TRADITIONALLY FRIENDLY BASIS.

THE DEPARTMENT OF EXTERNAL AFFAIRS AVAILS
ITSELF OF THIS OPPORTUNITY TO RENEW TO THE EMBASSY
OF THE UNITED STATES OF AMERICA THE ASSURANCES
OF ITS HIGHEST CONSIDERATION. END VERBATIM TEXT.

3. NOTHING ADDITIONAL OF SUBSTANCE ON THIS ISSUE
EMERGED FROM SUBSEQUENT CONVERSATION.

4. COPY OF EXTAFF NOTE, NO. ECT-1340, ALSO BEING
AIRPOUCHED EUR/CAN - BROWN.
JOHNSON

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